

July 12, 2019

MORITO CO., LTD.
Financial Statement (Unaudited)
For the Second Quarter of the Fiscal Year ended November 30, 2019
(Translated from the Japanese original)

Corporate Information

Code : 9837 Listings in First Section of the Tokyo Stock Exchange

(URL [http : www.morito.co.jp/english/index.html](http://www.morito.co.jp/english/index.html))

Representative : Takaki Ichitsubo

Representative Director and President

Contact : Makoto Tsuji

Managing Director of General Affairs Dept

Telephone: +81-6-6252-3551

Scheduled date of filing of Quarterly Report:

July 12, 2019

Scheduled date of dividend payment:

August 9, 2019

Supplementary explanation material for quarterly financial results:

Yes

Presentation meeting for quarterly financial results:

Yes

(Amounts rounded down)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year 2019(December 1, 2018 through May 31, 2019)

(1) Consolidated Financial Results

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q of FY 2019	22,402	7.1	757	△4.5	762	0.4	522	△6.9
2Q of FY 2018	20,922	4.3	793	20.2	759	12.8	561	△82.5

(Note) Comprehensive income : △250 million yen (-%)(2Q of FY2019) 40 million yen (△99.1%)(2Q of FY2018)

	Net income Per share	Fully diluted net Income per share
	Yen	Yen
2Q of FY 2019	19.05	—
2Q of FY 2018	20.42	20.37

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
2Q of FY 2019	45,824	32,222	70.2
FY 2018	48,011	32,959	68.5

(Reference) Equity capital : 32,164 million yen (2Q of FY2019) 32,905 million yen (FY2018)

(Note) We have started to adopt「Partial Amendments to 『Accounting Standard for Tax Effect Accounting』(ASBJ) Statement No. 28, issued on February 16, 2018」 at the beginning of the first quarter of FY2019. Therefore, major management indices in the consolidated financial result for the fiscal year 2018 are restated by using the consolidated financial results which adopted this amendment.

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2018	-	12.50	-	12.50	25.00
FY 2019	-	13.00			
FY 2019 (Forecast)			-	13.00	26.00

(Note) Revisions of dividend forecast to the latest announcement: None

3. Consolidated Forecast for FY 2019 (December 1, 2018 through November 30, 2019)

(Percentages represent changes from corresponding period of previous year)

	Net Sales		Operating income		Ordinary profit		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	47,000	7.0	1,900	10.1	1,900	6.1	1,400	11.3	50.90

(Note) Revision of performance forecast to the latest announcement: None

***Notes**

(1) Changes of important subsidiaries during the period : None (changes of specific subsidiaries in accordance with changes in the scope of consolidation)

Newly included : None

Excluded : None

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and changes or restatement of accounting estimates

(i) Changes in accounting policies caused by revision of accounting standards: None

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(4) Number of outstanding shares (common shares)

(i) Number of outstanding shares, including treasury shares at end of period:

30,800,000 shares (as of May 31, 2019)

30,800,000 shares (as of November 30, 2018)

(ii) Number of shares of treasury stock at end of period:

3,447,060 shares (as of May 31, 2019)

3,290,700 shares (as of November 30, 2018)

(iii) Average outstanding number of shares during the period:

27,452,023 shares (the 2Q of FY2019)

27,501,883 shares (the 2Q of FY2018)

* This quarterly financial summary is not subject to quarterly review by certified public accountants or an audit firm.

* Disclosure and other special notes regarding performance forecasts.

The forecast in this cumulative quarterly statement is based on information available to Morito Group and certain premises which are deemed to be rational, and numbers we actually get may greatly differ from those in the forecasts due to various factors.

As for supporting premises to the performance forecasts or notes to be kept in mind for the usage of this forecasts, refer to "1. Qualitative Information for the Period under Review (2) Forecasts of Consolidated Business Results and other Forward-looking Information" in the attached page 5.

In addition, we have introduced "Stock Granting Trust (J-ESOP)" and "Board Incentive Plan (BIP)". Consequently, the shares held by Trust and Custody Service Bank, Ltd. and the Master Trust Bank of Japan, Ltd are included in the treasury stock.

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1. Qualitative Information for the Period under Review

(1) Overview of Business Performance

In the consolidated cumulative second quarter (From December 1, 2018 through May 31, 2019), the Japanese economy has continuously shown a gradual recovery with steady increases in domestic demands such as consumer spending, capital investment, etc. However, the global economy has been changing in increasing uncertainties from the US and China trade friction, Britain's withdrawal from EU, etc.

In such circumstances, Morito Group who deals with apparel materials and consumer products has made a transition to a holding company system as of June 1, 2019 positioning FY 2019 as "The year of "Structural Reform". Furthermore, we have been pushing forward with our efforts for creating values to satisfy demands from the eras putting weight on developing value-added Japanese items and expanding revenue bases through cultivating global sales channels. We have also been accelerating our efforts for the growth by developing untapped market as well as existing markets of ASEAN, China, US or Europe, under the corporate vision of 『Create Morito's existence value, Realize "New Morito Group"』.

As a result, we reached 22,402 million yen (increased by 7.1% from a year earlier) in Net sales, 757 million yen (decreased by 4.5% from a year earlier) in Operating income, 762 million yen (up by 0.4% from a year earlier) in Ordinary income, and 522 million yen (decreased by 6.9% from a year earlier) in Net income.

The exchange rates used for the overseas subsidiaries' consolidated cumulative second quarter financial statements are as below.

As a result, in the current quarterly performance reaches net sales ¥11,145, million (increased by 10.5% from a year earlier), operating income ¥370 million (increased by 3.2% from a year earlier), ordinary income ¥347 million (increased by 11.4. % from a year earlier), net income ¥210 million (decreased by 10.5 % from a year earlier).

The exchange rate used for the overseas subsidiaries' consolidated financial statement of the current quarter end as below:

	1Q	2Q
USD	112.91 (112.98)	110.23 (108.23)
EUR	128.82 (133.01)	125.16 (133.15)
RMB	16.32 (17.08)	16.33 (17.04)
HKD	14.42 (14.47)	14.05 (13.83)
TWD	3.66 (3.75)	3.58 (3.70)
VND	0.0048 (0.0050)	0.0047 (0.0048)
THB	3.44 (3.43)	3.49 (3.43)
MXN	5.70 (-)	5.74 (-)

(Notes)

1. () is the exchange rate of the quarter of FY2018.

2. The results of MORITO SCOVILL MEXICO S.A.de C.V. were included in the consolidated subsidiary from the first quarter of FY 2019.

The exchange rates used to convert income and expense for consolidated financial results of this subsidiary is Mexican Peso (MXN).

Segment information as below

[Japan]

As for the apparel division, sales of the accessories for uniforms and working wear increased.

In the consumer product division, sales of products for one dollar shops and automobile interior components increased.

Furthermore, since the results of MANEUVERLINE INC. which we acquired in April were included in the consolidated income statements from the third quarter of FY2018, sales from their businesses of importing

and selling marine leisure and snowboarding, etc. increased in consolidated cumulative second quarter period.

As a result, net sales reached 16,427 million yen (increased by 11.0% from a year earlier).

[Asia]

As for the apparel division, sales of the accessories to Japanese apparel manufacturers in Shanghai and EU and US/European manufacturers in Hong Kong decreased.

In the consumer product division, sales of the automobile interior components bound for Japanese manufactures increased in Shanghai and Thailand. As a result, net sales reached 3,088 million yen (decreased by 0.2% from the previous year).

[Europe and the U.S.]

As for the apparel division, sales of the accessories to apparel manufacturers in the U.S. decreased.

In the consumer product division, sales of automobile interior components to Japanese auto manufacturers increased in Europe/US.

As a result, net sales reached 2,886 million yen (decreased by 4.5% from the previous year).

(2) Forecast of Consolidated Business Results and other Forward-looking Information

Currently, there has no change in the consolidated forecast of FY2019 which was announced in 11th January, 2019.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	FY 2018 (As of November 30, 2018) Thousands of yen	FY 2019 (As of May 31, 2019) Thousands of yen
Assets		
Current assets		
Cash and deposits	9,343,274	8,681,383
Notes and accounts receivable	12,008,498	11,371,908
Inventory	5,406,890	5,675,571
Other current assets	859,513	576,726
Allowance for doubtful accounts	△38,224	△38,382
Total current assets	27,579,953	26,267,206
Fixed assets		
Tangible fixed assets		
Land	4,332,821	4,331,408
Other tangible fixed assets	5,813,996	5,881,118
Total tangible fixed assets	10,146,818	10,212,527
Intangible fixed assets		
Goodwill	3,196,351	3,020,831
Other Intangible fixed assets	1,156,215	1,236,801
Total intangible fixed assets	4,352,566	4,257,633
Investments and other fixed assets		
Investment securities	4,727,033	3,922,403
Net defined benefit asset	237,765	234,619
Other fixed assets	1,033,134	997,092
Allowance for doubtful account	△75,148	△75,052
Total investments and other fixed assets	5,922,784	5,079,063
Total fixed assets	20,422,170	19,549,223
Deferred assets	9,802	7,702
Total assets	48,011,926	45,824,132
Liabilities		
Current liabilities		
Notes and accounts payable	4,500,593	4,682,478
Short-term loans payable	200,000	100,000
Current portion of bonds	400,000	400,000
Current portion of long-term debt	749,146	573,280
Accrued tax payable	128,612	390,684
Reserve for bonuses	225,231	165,672
Reserve for director's bonuses	56,929	43,922
Other current liabilities	1,665,881	1,369,170
Total current liabilities	7,926,394	7,725,209
Fixed liabilities		
Bonds payable	600,000	400,000
Long-term debt	3,667,331	2,991,246
Provision for retirement benefit by stock	26,501	34,655
Provision for director's retirement benefit	48,583	52,799
Provision for director's retirement benefit by stock	71,040	45,532
Provision for environmental measures	20,367	19,907
Net defined benefit liability	894,881	883,643
Other fixed liabilities	1,797,615	1,448,640
Total fixed liabilities	7,126,319	5,876,425
Total liabilities	15,052,714	13,601,634

(Unaudited)

	FY 2018 (As of November 30, 2018) Thousands of yen	FY 2019 (As of May 31, 2019) Thousands of yen
Net Assets		
Shareholders' equity		
Capital	3,532,492	3,532,492
Capital surplus	3,498,724	3,502,970
Retained earnings	25,277,180	25,434,999
Treasury stock	△2,118,444	△2,248,341
Total shareholders' equity	30,189,951	30,222,120
Other comprehensive income		
Valuation difference on available-for-sale securities	1,409,695	870,586
Deferred gains or losses on hedges	451	259
Difference in revaluation of land	571,368	571,368
Foreign currency translation adjustment	802,769	555,844
Remeasurement of defined benefit plans	△68,550	△55,902
Total other comprehensive income	2,715,733	1,942,155
Subscription rights to shares	53,526	58,222
Minority interests	—	—
Total net assets	32,959,212	32,222,498
Total liabilities and net assets	48,011,926	45,824,132

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

The Second Quarter accounting period

	FY 2018 (December 1, 2017 through May 31, 2018) Thousands of yen	FY 2019 (December 1, 2018 through May 31, 2019) Thousands of yen
Net sales	20,922,099	22,402,663
Cost of sales	15,351,623	16,326,564
Gross profit	5,570,476	6,076,098
Total selling, general and administrative expense	4,777,322	5,318,329
Operating Income	793,154	757,768
Non-operating income		
Interest received	12,919	12,862
Dividends received	33,479	32,431
Rent on real estate	21,049	24,267
Equity in earnings of affiliates	34,742	33,113
Other non-operating income	27,358	29,817
Total non-operating income	129,549	132,493
Non-operating expenses		
Interest paid	1,800	4,090
Cash discount on sales	40,095	41,043
Foreign Exchange Loss	68,635	29,670
Others non-operating expense	52,569	53,157
Total non-operating expense	163,101	127,961
Ordinary Income	759,602	762,300
Extra ordinary income		
Gains on sales of fixed assets	16,368	29
Gains on sales of investment securities	5,419	81,849
Gain on reversal of subscription rights to shares	—	210
Total extra ordinary income	21,788	82,089
Extra ordinary loss		
Loss on sales of fixed assets	273	—
Loss on disposal of fixed assets	3,818	3,867
Loss on sales of investment securities	—	415
Loss of business restructuring	4,970	2,948
Total extra ordinary loss	9,063	7,231
Net income before taxes and other adjustment	772,327	837,158
Corporate, inhabitant and business taxes	332,172	368,248
Adjustments to corporate and other taxes	△121,503	△54,013
Total income taxes	210,668	314,234
Net income	561,658	522,923
Profit(Loss) attributable to non-controlling interests	—	—
Profit(Loss) attributable to owners of parent	561,658	522,923

Quarterly Consolidated Statements of Comprehensive Income
The Second Quarter accounting period

	FY 2018 (December 1, 2017 through May 31, 2018) Thousands of yen	FY 2019 (December 1, 2018 through May 31, 2019) Thousands of yen
Net Income	561,658	522,923
Other comprehensive income		
Unrealized gain(loss) on available-for-sale securities	△28,137	△539,108
Deferred gains or losses on hedges	2,427	△193
Foreign currency translation adjustment	△498,882	△246,924
Adjustments to retirement benefit	3,023	12,647
Share of other comprehensive income of associates accounted for using equity methc	△1	1
Total other comprehensive income	△521,570	△773,578
Comprehensive income	40,088	△250,654
(Breakdown)		
Comprehensive income attribute to the parent	40,088	△250,654
Comprehensive income attribute to the minority shareholders	—	—

(3) Consolidated Cash Flows

	FY 2018 (December 1, 2017 through May 31, 2018) Thousands of yen	FY 2019 (December 1, 2018 through May 31, 2019) Thousands of yen
Cash flows from operating activities		
Income (loss) before income taxes	772,327	837,158
Depreciation of amortization	333,761	415,195
Depreciation of goodwill	87,613	121,327
Change in provision for bonus	△46,793	△56,857
Changes in net defined benefit asset	△4,059	14,128
Changes net defined benefit liability	△1,904	△3,990
Change in reverse for retirement benefits for officers	3,750	4,216
Changes in reverse for employee stock ownership plan	3,107	8,154
Changes in board incentive plan	9,744	△25,507
Change in allowance for doubtful accounts	4,318	750
Interest income and dividends income	△46,398	△45,294
Interest paid	1,800	4,090
Equity in net income of affiliates	△34,742	△33,113
Gain on reversal of subscription rights to shares	—	△210
Gains from sale of fixed assets	△16,094	△29
Gains from sale of investment securities	△5,419	△81,434
Loss on retirement of noncurrent assets	3,818	3,867
Loss on disposal of fixed assets	4,970	2,948
Change in notes and accounts	60,576	600,306
Change in inventory	△353,868	△307,784
Change in account payable	129,582	196,371
Others	△10,227	107,160
Subtotal	895,864	1,761,455
Proceed from interest and dividends income	48,508	47,047
Payment of interest	△1,820	△4,300
Payment of corporate tax	△468,382	△42,844
Net cash(used in)provided by operating activities	474,169	1,761,358
Cash flows from investing activities		
Decrease in time deposit	△652,846	△22,558
Increase in time deposit	696,041	4,798
Purchase of investment securities	△124,343	△14,135
Increase of sale for investment securities	9,308	106,888
Purchase of tangible fixed assets	△1,859,000	△637,249
Proceeds from sale for tangible fixed assets	37,499	1,013
Purchase of intangible assets	△26,587	△184,699
Payments of loans receivable	—	△3,000
Proceeds from loans receivable	53,472	13,192
Purchase of stocks of subsidiaries and affiliates	△57,596	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	△2,152,461	—
Others	△10,529	△7,480
Net cash provided by (used in) investing activities	△4,087,044	△743,230
Cash flows from financing activities		
Changes in short-term debt	—	△100,000
Proceeds from long-term loans payable	2,600,000	—
Repayments of lease obligations	△45,599	△30,080
Repayment of long-term loans	△176,497	△851,951
Redemption of bonds	△200,000	△200,000
Payments to acquire treasury stock	—	△151,148
Proceeds from exercise of stock option	—	12,368
Payments of dividends	△392,843	△350,753
Net cash used in financing activities	1,785,059	△1,671,564
Effects of exchange rate on cash and cash equivalents	△95,471	△49,298
Net increase (decrease) in cash and cash equivalents	△1,923,286	△702,735
Cash and cash equivalents at beginning of year	10,776,583	8,525,759
Increase in cash and cash equivalents from newly consolidated subsidiary	—	32,021
Cash and cash equivalents at fiscal year-end	8,853,296	7,855,044

(4) Notes regarding Quarterly Consolidated Financial Statements

[Notes on assumption of going concern]

Not applicable.

[Notes on a Significant Change in Shareholders' Equity]

Not applicable

[Additional Information]

(Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting)

We have started to adopt "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on February 16, 2018) at the beginning of the first quarter of FY2019. Therefore, deferred tax assets are shown in the category of Investments and other fixed assets, and deferred tax liabilities are shown in the category of Fixed liabilities.

[Segment Information]

I. The Second Quarter of FY 2018 (December 1, 2017 through May 31, 2018)

1. The information on net sales, income or loss by reportable segment

(Thousands of yen)

	Reportable Segment				Adjustment (Note 1)	Consolidated Statement Amount (Note 2)
	Japan	Asia	EU and US	Total		
Net Sales						
Sales to external customers	14,804,879	3,093,753	3,023,467	20,922,099	—	20,922,099
Inter segment sales and transfer	1,234,781	1,594,290	28,870	2,857,943	△2,857,943	—
Total	16,039,660	4,688,043	3,052,338	23,780,042	△2,857,943	20,922,099
Segment income	674,103	199,292	80,206	953,602	△160,448	793,154

(Notes)

1. Adjustment of △160,448 thousand yen includes corporate expenses of △143,858 thousand yen that are not distributed to each reportable segment and other △16,589 thousand yen.
2. The amount of segment income is subsequently adjusted with the amount of operating income on the quarterly consolidated profit and loss statements.

2. Impairment Loss on intangible assets or information on goodwill by reportable segment.

(Significant fluctuations in the amount of goodwill)

The amount of goodwill is reported in the segment of "Japan" due to the acquisition of MANEUVERLINE INC.

The increase in the amount of goodwill incurred from this event is 661,478 thousand yen in Consolidated Cumulative Results of the Second Quarter of FY2019. Besides, the above amount is included results after an important review on the originally allocated costs for the business combination was completed upon settling the provisional account processing as written in "Notes (Business Combination-related)"

II. The Second Quarter of FY2019 (December 1, 2018 through May 31, 2019.)

1. The information on net sales, income or loss by reportable segment

(Thousands of yen)

	Reportable Segment				Adjustment (Note 1)	Consolidated Statement Amount (Note 2)
	Japan	Asia	EU and US	Total		
Net Sales						
Sales to external customers	16,427,985	3,088,046	2,886,631	22,402,663	—	22,402,663
Inter segment sales and transfer	1,226,164	1,515,961	11,741	2,753,866	△2,753,866	—
Total	17,654,149	4,604,007	2,898,372	25,156,530	△2,753,866	22,402,663
Segment income	709,308	225,300	14,777	949,386	△191,618	757,768

(Notes)

1. Adjustment of △191,618 thousand yen includes corporate expenses of △167,751 that are not distributed to each reportable segment and other △23,867 thousand yen.
2. The amount of segment income is adjusted with operating profits on the consolidated quarterly profit and loss statements.

[Business Combinations]

(Important review on the originally allocated costs for the business combination in comparative information)

We have made a provisional account processing in the previous consolidated second quarter for the business combination with MANEUVERLINE INC. taken place in April 2, 2018, which was settled in the previous consolidated accounting year-end.

With the settlement of this provisional account processing, an important review on the originally allocated costs for the business combination is reflected in comparative information included in the quarterly consolidated financial statements for the period of the current consolidated cumulative Second quarter, and the amount of goodwill has been changed from 1,218,724 thousand yen to 661,478 thousand yen.

There is no effect on the quarterly consolidated profit and loss statements for the previous Consolidated Cumulative Second Quarterly period.

[Significant events occurred subsequent to the combination]

(Transition to the Holding Company system with the Conclusion of an Absorption-type Company Split Agreement)

Morito has determined to conclude an Absorption-type Company Split Agreement with Morito Japan Co., Ltd (hereafter referred to as "Succession Company") at the board meeting held on December 13, 2018, in order to transfer to a holding company system through splitting its businesses as a splitting company to the Succession Company as of June 1, 2019. Along with this transition, Morito has transferred to a Holding Company system as of June 1, 2019.

1. Outline of Corporate division

(1) Business functions subject to the division

Manufacturing and selling accessories or parts for apparel products and automobile interior components, etc.

(2) Date of business combination

June 1, 2019

(3) Legal form of the business combination

Absorption-type Company Split through which Morito Co., Ltd, is a splitting company, and Morito Japan Co., Ltd., a succession company.

(4) Name of the entity after the business combination

A splitting company: Morito Co., Ltd.

A succession company: Morito Japan Co., Ltd.

(5) Purpose of the business combination

Business environment around Morito Group has been rapidly changing due to mid- to long-term shrinkage of the domestic demands resulted from the decreasing population, etc., global creation of new business models beyond borders of industries, or emergence of new technologies such as IoT or Artificial Intelligence, etc. happening at a time.

In such circumstances, we have been putting efforts on creating values to satisfy demands from the eras and expanding revenue bases through cultivating global channels, under the corporate vision of 『Create Morito's existence value, Realize "New Morito Group"』. We have made a decision to make a transition to a Holding Company system as it would seemingly be the optimal way for us to pursue further growth and revenue.

Our purposes for transferring to a Holding Company system are as follows;

① Strengthening Group management strategic functions

The Holding Company is to be specialized for managing businesses for the entire Morito group, planning Group management strategies to expand new businesses including M&A, and maximizing corporate values of the entire group by allocating management resources optimally and utilizing it effectively.

② Making decisions rapidly by clarifying authorities and responsibilities.

Separating organizations from group management to business promotion, and clarifying responsibilities and authorities of both organizations for their prompt decision making, and promoting businesses in a flexible manner to enhance our competitiveness.

③ Maximizing group synergy effects

Synergy effects among group companies are maximized in the utilization of management resources owned by our group companies cross-functionally and effectively centering the Holding Company.

2. Brief information on the account processing conducted

Based on "Accounting standards pertaining to Business Combination" and "Guideline for Accounting Standards for Business Combination and Corporate division", the accounts are recoded and processed as transactions under the control of common rules and regulations.